EXHIBIT NO. 1

UNITED STATES OF AMERICA
BEFORE
THE FEDERAL ENERGY REGULATORY COMMISSION

TransConnect, LLC	**)**	**Docket No. ER02-___-000**

DIRECT TESTIMONY

OF

JAMES J. PIRO

ON BEHALF OF

TRANSCONNECT, LLC

November 2001

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ON BEHALF OF TRANSCONNECT, LLC

Q. Please state your name, occupation, and address.

A. My name is James J. Piro. I am Senior Vice President, Chief Financial Officer, and Treasurer of Portland General Electric Company (PGE). My business address is One World Trade Center, 121 SW Salmon St., Portland, OR 97204.

Q. What is your educational background and experience?

A. I received a BS degree from Oregon State University in Civil Engineering in 1974 with an emphasis in Structural Engineering. In addition, I have taken postgraduate courses in engineering, accounting, economics, and rate making. I am a registered Professional Engineer in Civil Engineering in the State of California (Registration No. 28174). I joined PGE in 1980 and have held positions in Generation Engineering, Economic Regulation, Financial Analysis and Forecasting, Power Contracts, Economic Analysis, and Planning Support, Analysis and Forecasting. I served as Vice President of Business Development starting in 1998 and was appointed as Senior Vice President of Finance, Chief Financial Officer and Treasurer on May 1, 2001.

Q. What are your current responsibilities at Portland General Electric?

A. My current responsibilities at PGE include overseeing all aspects of the company's financial operations, including accounting, audit, finance, budget, planning, and risk management.

Q. What are your responsibilities related to the TransConnect efforts?

A. I have served as Project Manager for the TransConnect efforts. In this role I have been responsible for conducting the steering committee meetings, directing the development of the business plan and model for TransConnect, and directing the development of all the governance documents for TransConnect. In addition, I have directed the development of all the FERC filings on behalf of TransConnect. In particular, my role has been to coordinate the development of these specific work products and disseminate the information to the steering committee for review, comment and concurrence.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to (a) briefly describe the TransConnect business model and (b) discuss the development of preliminary transmission service revenue requirements and rates for the following TransConnect applicants: Nevada Power Company (NPC), PGE, and Sierra Pacific Power Company (SPPC) ("Rate Applicants"). Avista Corporation and The Montana Power Company are also TransConnect Applicants, but are not participating in the rate filing.

Q. Please briefly describe TransConnect.

A. TransConnect, LLC will be a Delaware limited liability company. TransConnect, LLC will have the sole purpose of owning, managing, operating, and expanding electric transmission assets, and will be managed by TransConnect Corporate Manager, Inc. (jointly called "TransConnect"). TransConnect will be a for-profit independent transmission company. TransConnect will be independent as defined by the Federal Energy Regulatory Commission ("FERC" or "Commission") in Order No. 2000, and, subject to the final approval of the Commission, will be permitted to share in the rate and planning functions with the RTO. TransConnect's governance structure was described in detail in TransConnect's October 16, 2000, Order No. 2000 Compliance Filing at the FERC in Docket No. RT01-15-000, and was largely approved by the Commission on April 26, 2001. 95 FERC ¶ 61,114 (2001).

Q. What are the benefits of TransConnect?

A. TransConnect will have a strong profit motivation to operate the assets it owns or manages in a cost effective, reliable manner. With a focus on the electric transmission business, and with the incentive rate elements of the rate case filing described in the testimony of David B. Patton (Exhibit TC-4), TransConnect will have healthy, correctly aligned incentives to grow the transmission system in the West. Dr. Patton details the benefits of forming an independent transmission company and the potential rate savings from the incentive rate proposals. The

testimony of Carolyn J. Cowan (Exhibit TC-16) also discusses the benefits of TransConnect, as well as the risks that a transmission-only company will face.

Q. What return on equity does TransConnect propose?

A. After identifying the varied and unique risks of an independent transmission company, Ms. Cowan concludes that a return on equity above the middle of the range of reasonable is justified. The testimony of financial witness William E. Avera (Exhibit TC-10) establishes this range as 12 to 15.5 percent. Ms. Cowan accordingly proposes that the ROE used to establish the return component of the cost of service be set at 14.5 percent.

Q. What capital structure does TransConnect propose?

A. TransConnect proposes a 50 percent equity, 50 percent debt capital structure. This structure is consistent with Article 6.5 of the TransConnect LLC Operating Agreement which provides that the debt to equity ratio of TransConnect will initially be up to 50 percent.

Q. How does TransConnect propose to establish rates for transmission services?

A. TransConnect proposes to set transmission rates by "zone." Each zone will match the territory served by the individual member companies. The transmission customer will pay the appropriate transmission rate established for the location of the load it serves, but is entitled to use of the full TransConnect system for that one rate. For example, a generator in Southern Nevada that serves a load in

Northern Nevada will pay only the SPPC zonal rate and not the rate of NPC, although some NPC facilities are used for delivery to the SPPC service area. This proposal is consistent with the rate design methodology being developed for RTO West.

Q. What cost of service data are the rates based upon?

A. A cost of service analysis was performed for each Rate Applicant for the previous recorded 12 months (Period I) and for the period upon which preliminary rates are proposed (Period II). Period I represents illustrative revenue requirements and rates prior to formation of TransConnect.[1] The Period II analysis represents proposed revenue requirements and rates once TransConnect is formed and operational. TransConnect will submit an updated analysis to support these rates 60 days prior to the initial date of TransConnect operation.

Q. What time periods were used for Period I and Period II data?

A. Period I costs are based upon data recorded for calendar year 2000, as reported in each company's FERC Form No.1, and Period II costs are based upon a calendar year 2002 forecast.

Q. Please describe any significant differences between Period I and II.

A. The revenue requirement for the PGE zone shows a substantial decrease from Period I to Period II. This change results from the reclassification of transmission

[1] Period 1 rates developed herein will not match currently effective rates contained within the Open Access Transmission Tariffs on file at FERC for the individual member companies, nor does this filing

plant in year 2002 to distribution based upon Order No. 01-325 of the Oregon Public Utility Commission (OPUC), issued April 26, 2001.

Q. How are calculations of company revenue requirements consistent with FERC Staff policies in the companies' prior transmission rate cases?

A. They are consistent with Staff policies in prior cases. For example:

1. Costs for "Transmission by Others," as recorded in FERC Account No. 565, are excluded from the companies' cost of service.
2. PGE booked the cost of generator leads, step-up transformers and radial lines located at or near a generator site to transmission FERC accounts in Period I, but has from removed these costs from its Period I transmission cost of service analysis. NPC and SPPC do not book these costs to transmission FERC accounts.
3. The revenues from Short-Term Firm and Non-Firm transmission services (FERC Account No. 456), including all off-peak revenues, are credited to the cost of service. The load associated with Long-Term Firm transmission service is included in billing determinants used for deriving the Point-To-Point transmission rates.

Q. How have the companies functionalized their electric plant in service?

A. The basis for classifying generation, transmission, and distribution plant by function is pursuant to orders issued by each utility's State public utility

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request that any rates stated herein be made effective for any of the companies. The Period I rates are presented for illustrative purposes only.

commission. The process of functionalizing transmission and distribution assets generally followed FERC's guidelines of the seven distribution indicators outlined in Order No. 888 [FERC Stats. and Regs., Regulations Preambles 1991-96 ¶ 31,036 at 31,771 (1996)]. SPPC's reclassification of assets according to these guidelines was approved by the Public Utility Commission of Nevada (PUCN) in Order No. 97-11018 on August 24, 1998, and subsequently filed and accepted by FERC in Docket No. ER99-2339-001 on July 29, 1999. NPC's reclassification of assets according to these guidelines was approved by the Public Utility Commission of Nevada (PUCN) in Order No. 97-11028 on August 24, 1998, and subsequently filed and accepted by FERC in Docket No. ER99-3110-000 on March 30, 2000.

As described above, the OPUC recently approved PGE's reclassification of assets. PGE will prepare a FERC filing, based on revenue requirements recently approved by the OPUC (Order No. 01-777, issued August 31, 2001), to reflect the effect of this reclassification in its FERC transmission rates. In that filing, PGE will request that FERC accept the OPUC's determination of PGE's asset functionalization.

Q. Please describe the method for assigning General and Intangible plant assets to the Transmission revenue requirement.

A. The companies used labor allocators to assign these assets to the transmission revenue requirement, consistent with FERC's traditional method.

Q. Please describe the method for determining the Operation and Maintenance (O&M) expense component of the transmission revenue requirement.

A. Period I expenses are based on amounts recorded in the companies' FERC Form No. 1 for 2000. Period II costs are based upon each company's forecast of 2002 O&M expense as a stand-alone company.

Q. How is the O&M component of the proposed rates determined after TransConnect's initial year of operation?

A. As discussed in Dr. Patton's testimony, the O&M component of the rates will be initially established at the Period II level and adjusted each year based upon a productivity-adjusted cost calculator.

Q. Please describe the method for determining the Administrative and General (A&G) expense component of the transmission revenue requirement.

A. Period I expenses are based on amounts recorded in the companies' FERC Form No. 1 for 2000. Period II costs are based on each company's forecast of 2002 A&G expenses as a stand-alone company. Initial startup costs for TransConnect are not reflected in the 2002 revenue requirement. The Period II A&G costs will be used for the first year of operation and will serve as a cap for subsequent years.

Q. How is the A&G component of the proposed rates determined after TransConnect's initial year of operation?

A. For its second year of operation, TransConnect will determine its actual A&G expense during the prior year, and, to the extent A&G costs have decreased from the Period II costs, will adjust its rates to reflect 50 percent of that decrease. For the second year of operation, TransConnect estimates it will have only 8 months of recorded A&G data to compare against the cap. This recognizes that the filing will be submitted to FERC at least 60 days prior to the end of the year and that there is a lag in the actual data available at the time the analysis for that filing is performed. For this second year only, Transconnect will annualize the 8 months of actual data to perform its analysis. In subsequent years, the analysis will be based on the most recent 12 months of data available. For each subsequent year, TransConnect will file an analysis that compares actual A&G expenses recorded in the previous 12 months to the capped level of expense established for Period II. In the event actual expenses are lower than the capped level, TransConnect proposes to share 50% of the A&G savings with customers. Should actual A&G expenses exceed the cap, TransConnect will not seek to increase the A&G portion of the rates.

Q. Why is this treatment of A&G expense appropriate?

A. Because TransConnect is not seeking separate recovery of its initial startup costs, this mechanism will give TransConnect an incentive to keep those costs to levels that can be recovered under the proposed level of A&G costs, as adjusted. To the extent it cannot, TransConnect will be at risk for the recovery of those costs. By capping A&G costs at Period II levels, customers will not be harmed if

TransConnect is unable to achieve A&G cost savings. By sharing 50 percent of future year reductions with customers, both TransConnect and customers will benefit from such savings, and TransConnect will have a positive incentive to seek and achieve those cost reductions.

Q. What demand allocation method did the companies employ to derive the billing determinants used in calculating their transmission rates?

A. The demand allocation methods used for each company's zone are consistent with the currently-approved method used by each company. The PGE and SPPC zones used a twelve monthly coincident peak (12-CP) methodology to derive billing determinants for calculating the Point-to-Point transmission rates. The 12-CP methodology is based upon using the highest transmission system demand in every month during calendar year 2000. The NPC zone used a four monthly coincident peak (4-CP) methodology to derive billing determinants. Transmission system demand, plus long-term firm use of the transmission system, includes the following components: net system demand; net borderline load; and long-term firm contracts.

Q. How is the charge for network transmission service developed?

A. The cost of service analysis provides the annualized transmission revenue requirement used for network transmission service. Exhibit TC-2 shows each company's annual transmission revenue requirement.

Q. How are the Point-to-Point transmission rates developed?

A. Exhibit TC-2 details the development of each company's Point-to-Point rates.

Q. How are on-peak days and hours defined?

A. An on-peak day is defined as Monday through Saturday, excluding Sunday and Western Systems Coordinating Council ("WSCC") holidays. On-peak hours are defined as the 16 hours beginning at 6 a.m. through 10 p.m.

Q. Why did the companies use 6 days per week and 16 hours per day to calculate PTP transmission rates?

A. The 6 days per week, 16 hours per day period represents the typical on-peak period in the WSCC region. This corresponds to the on-peak period reported in the Dow Jones California-Oregon Border Electricity Price Index. This on-peak period is 6 a.m. to 10 p.m., Monday through Saturday, excluding WSCC holidays. All other hours are considered off-peak.

Q. Since the companies' prices for transmission service are referred to in the tariffs as "up-to" rates, how have the companies addressed discounts in the ratemaking process?

A. The companies do not assume any discounts other than for non-firm service. To the extent TransConnect negotiates rates under the negotiated rate provision proposed in the testimony of Dr. Patton, TransConnect will be at risk for any underrecoveries associated with such negotiated rates, but will be permitted to

retain any revenues in excess of its "recourse" rates. Revenues for non-firm service are credited to the cost of service, as described above.

Q. Have you summarized the rates for each zone?

A. Yes. Exhibit TC-3 summarizes the rates for each zone.

Q. Overall, how do the rates calculated for TransConnect fit within the RTO West proposed pricing structure?

A. The TransConnect rates form the basis for the "Company Rate" component of proposed RTO West charges. The TransConnect rates herein do not account for Transfer Charges or Uplift Charges that may be proposed in the RTO West tariff. Generally, the rates developed in this filing are illustrative of rates that would be in effect if TransConnect were to begin operation prior to the startup of an RTO.

Q. Does this conclude your testimony?

A. Yes, it does.